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Report of Independent Accountants on
Applying Agreed-Upon Procedures

To the Management of Verizon Communications Inc.
and the Joint Federal/State Oversight Team

We have performed the procedures enumerated in Appendices A, B and C, which were agreed to by the management of Verizon Communications Inc. ("Verizon") and the Joint Federal/State Oversight Team (collectively, the "Specified Users"), solely to assist you in evaluating management's assertion that Verizon complied with the requirements of Section 272 of the Communications Act of 1934, as Amended ("Section 272 Requirements") during the period from January 3, 2000 through January 2, 2001 (the "Evaluation Period"). This engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Specified Users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described in Appendices A, B and C either for the purpose for which this report has been requested or for any other purpose. Appendix A enumerates the procedures performed in connection with the Bell Operating Companies and the former Bell Atlantic Section 272 affiliates. Appendix B enumerates the procedures performed in connection with the Bell Operating Companies and the former GTE Section 272 affiliates. Appendix C enumerates the procedures performed in connection with the GTE Operating Companies and the former GTE Section 272 affiliates.

The procedures performed and the results obtained are documented in Appendices A, B and C. The procedures and the results of performing such procedures are not intended to be an interpretation of any legal or regulatory rules, regulations or requirements.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on Verizon's assertion regarding its compliance with the Section 272 Requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of Verizon and the Joint Federal/State Oversight Team, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We are currently in the process of completing the agreed-upon procedures relating to certain of the former GTE Section 272 affiliates. Our report herein will be amended upon completion of such procedures.

PricewaterhouseCoopers LLP

June 11, 2001

Appendix A enumerates the procedures performed in connection with the Bell Operating Companies[2] and the following Section 272 affiliates:[1] Bell Atlantic Global Networks, Inc., Bell Atlantic Communications, Inc., and Bell Atlantic Business Services.

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Objective I: Affiliate Shall Operate Independently from the BOC

1. We obtained and inspected the certificates of incorporation and bylaws of the Section 272 affiliates[1] and noted that the Section 272 affiliates were established as Delaware corporations separate from the Bell Operating Companies ("BOCs")[2] of Bell Atlantic Corporation (d/b/a Verizon Communications, Inc. ("Bell Atlantic" or the "Company")). Management indicated that in Delaware, articles of incorporation are known as certificates of incorporation.

2. We obtained and inspected the Bell Atlantic corporate entities' organizational charts as of September 30, 2000 and confirmed with legal representatives of the BOCs and of the Section 272 affiliates the legal, reporting, and operational corporate structure of the Section 272 affiliates. We obtained written confirmations from management noting that Bell Atlantic Business Services ("BABS") is owned by Bell Atlantic Worldwide Services Group, Inc., Bell Atlantic Communications, Inc. ("BACI") is owned by Verizon Communications, Inc. and Bell Atlantic Global Networks, Inc. ("BAGNI") is owned by Verizon Communications, Inc. We documented the ownership of the Section 272 affiliates and noted no instances where a Section 272 affiliate was owned by a BOC.

3. We obtained the functional organizational chart for the Section 272 affiliates as of September 30, 2000 that documented for each department the number of employees, street addresses where employees are located and a description of departmental functions by location.

   We noted, by inspection of the BABS functional organizational chart, that BABS employed ****proprietary**** employees as of September 30, 2000 which were classified into the following functional departments: President/CEO, Executive Assistant, Operations, Sales and Service, Marketing, Performance Assurance – Product Market Launch, Accounting/Finance and Human Resources.

   We noted, by inspection of the BACI functional organizational chart, that BACI employed ****proprietary**** employees as of September 30, 2000 which were classified into the following functional departments: President/CEO, Executive Assistant, Operations, Sales and Service, Marketing, Performance Assurance – Product Market Launch, Accounting/Finance and Human Resources.

   We noted, by inspection of the BAGNI functional organizational chart, that BAGNI employed ****proprietary**** employees as of September 30, 2000 which were classified into the following functional departments: President & CEO, Internet, Alliance Management, Engineering, Operations, Global Network Systems, Order Management Process & Wholesale Billing and Administration and Finance.

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[1] For the purposes of this document, the Section 272 affiliates are Bell Atlantic Global Networks, Inc. (d/b/a Verizon Global Networks, Inc.), Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), and NYNEX Long Distance (d/b/a Verizon Enterprise Solutions, previously d/b/a Bell Atlantic Business Services).

[2] For the purposes of this document, Bell Operating Companies refers to Bell Atlantic-PA (d/b/a Verizon PA), Bell Atlantic-NJ (d/b/a Verizon NJ), Bell Atlantic-DE (d/b/a Verizon DE), Bell Atlantic-MD (d/b/a Verizon MD), Bell Atlantic-VA (d/b/a Verizon VA), Bell Atlantic-DC (d/b/a Verizon Washington, DC), Bell Atlantic-WV (d/b/a Verizon WV), New York Telephone Company (d/b/a Verizon New York), and New England Telephone and Telegraph Company (d/b/a Verizon New England).

4. We obtained from the Section 272 affiliates a list and description of services rendered to the Section 272 affiliates from January 3, 2000 through September 30, 2000 by the BOCs, by other affiliates and by unaffiliated companies summarized as follows:

Services Rendered by the BOCs
Discriminatory Joint Marketing Services
Marketing and Sales - Non-Discriminatory Services
Telecommunications Services
Billing and Collections
Technical Services
Data Exchange and Database Access Services
Incidental Real Estate Services
Property Management Services Provided
Call Center Management and Administration Services
Programming and Testing Services
Wholesale National Directory Assistance and Related Services

Services Rendered by Other Non-Regulated Affiliates
General corporate support services that are allocated to all affiliates
Administrative support services

Services Rendered by Unaffiliated Entities
****proprietary****

The listing of services rendered by unaffiliated companies was limited to operations, installation and maintenance services. This listing by unaffiliated companies included the location of both the providing and receiving entities for services involving operations, installation and maintenance ("OI&M").

5. We obtained the functional organizational chart for the Section 272 affiliates as of September 30, 2000 and obtained from the Section 272 affiliates a list and description of services rendered to the Section 272 affiliates from January 3, 2000 through September 30, 2000 by the BOCs, by other affiliates and by unaffiliated companies. We noted that this data identified and documented which entity performed OI&M functions over transmission and switching facilities either owned or leased by the Section 272 affiliates. We also noted that this data included the street address where these facilities are located and identified whether these facilities are owned or leased by the Section 272 affiliates, and if leased, from whom they are leased. We noted there were 34 unaffiliated vendors who performed OI&M functions at 33 sites where the transmission and switching facilities were located.

6. We inquired of management as to the existence of any research and development activities of the BOCs from January 3, 2000 through September 30, 2000 related to the Section 272 affiliates or unaffiliated entities. Management indicated the BOCs did not perform any research and development on behalf of the Section 272 affiliates or unaffiliated entities.

7. We obtained the balance sheets, general ledgers and detailed fixed asset listings, including capitalized software, as of September 30, 2000 for the Section 272 affiliates. We compared the fixed asset balances in the balance sheets to the general ledgers of the Section 272 affiliates and noted no differences. We compared the fixed asset balances in the general ledgers to the totals listed on the Section 272 affiliates' detailed fixed asset listings and noted that the fixed asset balances in the general ledgers included construction-in-progress that was not included in the detailed listings of fixed assets.

   We noted the fixed asset balance per the BAGNI general ledger was ****proprietary****, and the balance per the detailed fixed asset listing was ****proprietary****. We noted the fixed asset balance per the BABS general ledger was ****proprietary****, and the fixed asset balance per the detailed fixed asset listing was ****proprietary****. Construction-in-progress totaling ****proprietary**** and ****proprietary****, respectively, was included in BAGNI and BABS general ledgers and not in the detailed fixed asset listing since the construction-in-progress balances reflect assets not yet placed in service.

   Additionally, for BACI we noted that the general ledger fixed asset balance was ****proprietary****, and the fixed asset balance per the detailed fixed asset listing was ****proprietary****. Construction-in-progress for ****proprietary**** was included in BACI's general ledger but not in the detailed fixed asset listing. Management indicated the remaining difference of ****proprietary**** was for a credit related to the purchase of long distance cable that was recorded in the general ledger at September 30, 2000 but not updated in the BACI detailed fixed asset listing.

   We noted that the detailed listings of fixed assets for the Section 272 affiliates included the description and location of each item, date of purchase or transfer, price paid and recorded, and from whom the asset was purchased or transferred. We noted that the date of purchase or transfer listed on the BAGNI fixed asset detailed listing ("transaction date") was January 1, 2000 for the transmission and switching facilities included on the detailed listing. Management indicated that January 1, 2000 was listed as the transaction date for each fixed asset item because Bell Atlantic was first allowed to offer in-region long distance in January 2000; accordingly, on that date, the fixed assets were placed in service.

   The BAGNI fixed asset detailed listing ("BAGNI Detailed Listing") was the only fixed asset listing that included transmission and switching facilities, including capitalized software. We selected a random sample of 100 transmission and switching facilities from the BAGNI Detailed Listing with a cost value for individual items up to **proprietary** and obtained the related invoices. Management indicated that title documents do not exist for the assets selected. We inspected the invoices and where applicable, the supporting reconciliations to the BAGNI Detailed Listing, and noted the related asset purchases were invoiced by unaffiliated entities between July 22, 1998 and July 31, 2000. Management indicated that the land and buildings where these transmission and switching facilities are located were not included on the BAGNI Detailed Listing since the land and buildings were leased by BAGNI from unaffiliated entities.

Objective II: Affiliate Shall Maintain Records Separate from those of the BOC

1. We obtained the general ledgers of the Section 272 affiliates as of September 30, 2000. We were unable to match the titles on the general ledgers with the names of the Section 272 affiliates on the certificates of incorporation since the Section 272 affiliates' names were legally changed during the year 2000. We obtained the Verizon Communications Inc. Legal Name Changes and Assumed Name Filings ("Legal Name Change Filings") which indicated the former names and new names of the Section 272 affiliates. We compared the former names of the Section 272 affiliates from the Legal Name Change Filings to the certificates of incorporation and noted no differences. We compared the new names from the Legal Name Change Filings to the title on the Section 272 affiliates' general ledgers as of September 30, 2000 and noted no differences. We noted no special codes that may link the Section 272 affiliates' general ledgers to the general ledgers of the BOCs.

2. We obtained the Section 272 affiliates' written accounting procedures and policies at September 30, 2000. We inquired of management and documented our understanding of the accounting systems, processes, transaction flows and control points impacting revenue, accounts receivable, cash receipts, purchasing, accounts payable, cash disbursements, payroll and fixed assets related to the proper identification and recording of the Section 272 affiliates' transactions in their separate books of account and we have summarized our understanding as follows:

   General Overview of Accounting Systems:
   - The Section 272 affiliates utilize the PeopleSoft operating system, which is separate and distinct from the BOC PeopleSoft system. Each system is maintained on a different mainframe and information is not shared between the two platforms.
   - The Section 272 affiliates have their own Information Technology ("IT") department which is separate from the IT department of the BOCs.
   - The Section 272 affiliates share a chart of accounts which is different and separate from the BOCs.
   - The Section 272 affiliates have a unique business unit code (i.e. BAGNI uses GNI) that appears on financial statements/general ledgers/other reports to separate themselves from the BOC.
   - Access rights to the PeopleSoft systems are granted by the Section 272 affiliates' IT departments, and are approved by the Controllers of the Section 272 affiliates.

   Revenue, Accounts Receivable, Cash Receipts:
   - The Section 272 affiliates have unique carrier identification codes to properly identify their customer call detail records ("CDRs").
   - The BAGNI switch receives and processes the BACI and BABS customer calls. The BAGNI switch then forwards the CDRs to the billing system for bill preparation. Billing revenue and the accounts receivable information is then interfaced to the PeopleSoft general ledger.

   Purchasing, Accounts Payable, Cash Disbursement:
   - Section 272 affiliates negotiate price quotes with their own vendors.
   - Purchase orders are prepared based on negotiated contracts and price quotes.
   - When an invoice is received, a voucher package is prepared. This package includes the invoice, packing slip, and purchase order. The package also contains the name of the

Section 272 affiliate, business unit code, and vendor information which is entered into the accounts payable system.

- The non-regulated accounts payable department handles the voucher packages for the Section 272 affiliates. They do not handle any vouchers for the BOCs.
- As checks are drafted to vendors and clear the bank, Bell Atlantic Financial Services Inc ("FSI") makes adjustments to the Section 272 affiliates' cash accounts.
- Bank reconciliations are performed on a regular basis.

Payroll:

- BOCs and Section 272 affiliates utilize different PeopleSoft payroll systems.
- Section 272 affiliate employees time sheets are sent to the payroll department of non-regulated and Section 272 affiliates only.
- Payroll disbursements are distributed to the Section 272 employees through a Section 272 bank account.
- Payroll does not have access to the personnel files. Payroll records and personnel files are kept in secured rooms with restricted access.

Fixed Assets:

- Section 272 affiliates' Asset Management process is separate from the BOC process. The Section 272 affiliates utilize a different software platform, different asset purchasing group, and a different location than the BOCs.
- The asset purchasing group receives training in the affiliate transaction rules.

3. We obtained the September 2000 FSI line of credit reports for the Section 272 affiliates. Management indicated these FSI reports reflect all cash receipts and cash disbursements for the Section 272 affiliates for the month of September 2000. FSI is the affiliate of Bell Atlantic which provides treasury services to the Company's non-regulated affiliates.

   For BABS, we selected and obtained 6 cash receipts (which represented all cash receipts) and randomly selected and obtained 10 cash disbursements (including 5 payroll) from BABS' account at FSI and compared to the books and records of BABS and noted no differences.

   For BACI, we randomly selected and obtained 10 cash receipts and 10 cash disbursements (including 5 payroll) from BACI's account at FSI and compared to the books and records of BACI and noted no differences.

   For BAGNI, we selected and obtained 3 cash receipts (which represented all cash receipts) and randomly selected and obtained 10 cash disbursements (including 5 payroll) from BAGNI's account at FSI and compared to the books and records of BAGNI and noted no differences.

4. We obtained the Section 272 affiliates' financial statements and listings of lease agreements as of September 30, 2000. We identified leases for which the annual obligation was $500,000 or more. We randomly selected and obtained the lease agreements for 5 leases, and noted the terms and conditions. We obtained and inspected the Company's lease accounting policies and the "Statement of Financial Accounting Standards No. 13, *Accounting for Leases*" assessment prepared by management indicating the accounting treatment determined by management for each lease and noted the assessment was prepared in accordance with the Company's lease accounting policies. We noted such accounting policies were consistent with GAAP.

Objective III: Affiliate Shall Have Officers, Directors, and Employees Separate from those of the BOC

1. We obtained the BOCs' and Section 272 affiliates' policies and procedures for transferring, sharing and loaning employees between each other. Through inspection of the policies and procedures, and inquiry of management, we noted and documented the types of internal controls in place that would prevent one from being an officer, director, or employee of both the BOCs and Section 272 affiliates at the same time. According to the policies and procedures we obtained, employees are permitted to transfer between a BOC and a Section 272 affiliate; however, the loaning or sharing of employees is not permitted.

   Management indicated the Bell Atlantic Corporate Governance Group ("CGG") is responsible for managing the requirement for the BOCs' and Section 272 affiliates' to have separate officers and directors. Potential officer and director candidates are compared to the roster of current Section 272 affiliate and BOC director and officer listings by the CGG and reviewed by the legal department and the Affiliate Interest Compliance Office. If a match is found that is inconsistent with the Section 272 affiliate separation requirements, a request is put in for a new candidate. When an employee from a BOC accepts a job offer at a Section 272 affiliate, or an employee from a Section 272 affiliate accepts an offer at a BOC, the affiliate human resources representative issues an Employee Action Record to notify the payroll staff of the new employee, the employee's start date and other critical information. The payroll staff representative then notifies the regulated corporate payroll staff of the impending transaction and requests a Reassignment – Transfer Checklist and a Transfer Form, which are completed by the corporate payroll staff and forwarded to the non-regulated payroll and employee change records teams, to ensure the individual is not on the payroll of both a Section 272 affiliate and a BOC at the same time.

2. We inquired and documented that the Section 272 affiliates and the BOCs maintain separate boards of directors and separate officers.

   We obtained a list of officers' and directors' names for the BOCs and the Section 272 affiliates for January 3, 2000 through January 2, 2001 and compared the list of officers and directors of the BOCs to the list of officers' and directors' names of the Section 272 affiliates and noted no names that appeared on both lists.

   We obtained the minutes of the Meetings of the Boards of Directors for the BOCs and the Consents in Lieu of Meeting of the Board of Directors for the Section 272 affiliates for January 3, 2000 through January 2, 2001. (Management indicated there were no Board of Directors' meetings held for the Section 272 affiliates since any action required or permitted to be taken at any meeting of the Board of Directors of a Delaware corporation may be taken without a meeting if all members of the board consent thereto in writing and all writings are filed with the minutes to the board. Therefore, we obtained Consents in Lieu of Meeting of the Board of Directors for the Section 272 affiliates.) We compared the minutes of the Meetings of the Board of Directors of the BOCs to the Consents in Lieu of Meeting of the Section 272 affiliates and noted a Bell Atlantic corporate officer who appeared on both documents. Management indicated the individual who appeared on both the BOC's minutes and the Section 272 affiliate Consent was a Section 272 affiliate officer and was not an officer or director of the BOC. We also noted the employee was not on the BOC's officers and directors listing.

3. We obtained and inspected the functional organizational chart for the Section 272 affiliates as of September 30, 2000 and noted that no departments report either functionally or administratively (directly or indirectly) to an officer of the BOCs.

4. We obtained the employee listings of the Section 272 affiliates and of the BOCs that included the social security numbers of the directors, officers and employees at September 30, 2000. We designed and executed a program which electronically compared social security numbers of directors, officers and employees on the Section 272 affiliates' lists to the BOCs' lists and noted that 14 individuals were listed on both the Section 272 affiliates' listings and the BOCs' listings. We documented the names and social security numbers of the 14 individuals which appeared on both listings. Management indicated that each of the 14 individuals had transferred to a Section 272 affiliate and were no longer employees of a BOC at September 30, 2000. Management also indicated that each of these 14 individuals appeared on the BOC listing because they received non-wage payments, such as a Fair Labor Standards Act adjustment in overtime rate based on employees' overtime worked while employed by the BOC, vacation buyouts, employee incentive awards, and motor vehicle allowance reimbursement from a BOC subsequent to the individual's transfer to a Section 272 affiliate. We also obtained employment histories for the 14 individuals from the Company's Employee Information System. By reference to the Company's Employee Information System only, we noted no instances where an individual was concurrently employed by a BOC and Section 272 affiliate.

5. We obtained the list of officers and employees who transferred from the BOCs, at any time between February 8, 1996 (the date of the Act) and January 2, 2001, to the Section 272 affiliates. We selected a random sample of 45 transferred employees to determine that the controls documented in Objective III, Procedure 1 were applied by inspecting employees' employment history from the Company's Employee Information System and noted no instances where an individual was concurrently employed by a BOC and Section 272 affiliate. We requested and received written confirmations from the 45 transferred employees that they did not use any proprietary information (e.g., customer proprietary network information (CPNI), Network Planning Manuals, Plant Traffic Practices, and OI&M Practices) obtained while they were employees of the BOCs and that no proprietary information was made available to them through friends and acquaintances still employed by the BOCs.

6. We obtained the lists of employees of the Section 272 affiliates (collectively, "the Employee List") since February 8, 1996, the date of the Act, through January 2, 2001. We selected a random sample of 90 employees from the Employee List and inspected the employment history report from the Company's Employee Information System. We documented whether the selected employees were employees of the BOCs or any of its affiliates at any time. We documented the number of employees, number of times, and dates each employee transferred between a BOC or any other affiliate and the Section 272 affiliate since February 8, 1996. We noted 12 employees that transferred from a BOC to a Section 272 affiliate since February 8, 1996. Each of these employees transferred one time from a BOC to a Section 272 affiliate between May 31, 1998 and April 30, 2000. We noted no instances where any of the selected employees had transferred from a Section 272 affiliate to a BOC.

7. We obtained the methodology used to calculate annual bonuses for officers and management employees of the Section 272 affiliates. We inquired of management, who indicated that Bell Atlantic's earnings per share is a component of the financial portion of the annual bonus calculation; however, the calculation of the annual bonuses is not tied to the exclusive performance of the BOCs or the Section 272 affiliates, or the combined performance of the BOCs and the Section 272 affiliates. Therefore, we did not obtain the related bonus calculations.

Objective IV: Affiliate May Not Obtain Credit with Recourse to the Assets of the BOC

1. We obtained the Section 272 affiliates' debt agreements (noting that these debt agreements were with a related party, FSI) and contracts with major suppliers of goods and services which documented the vendor, description of service and terms for such agreements. Major suppliers are defined as those having $500,000 or more in annual sales to the Section 272 affiliates. We did not note any language indicating guarantees of recourse to the BOCs' assets, either directly or indirectly through another affiliate. Management indicated there were no other credit arrangements with other lenders.

2. We obtained the lease agreements (where the annual obligation is $500,000 or more) used in Objective II, Procedure 4, which documented the terms and conditions of the Section 272 affiliates' lease agreements. We did not note any language in the agreements indicating recourse to the BOCs' assets, either directly or indirectly through another affiliate.

3. We requested written confirmations from FSI, and 78 major suppliers and lessors, confirming lack of recourse to the BOCs' assets for the debt agreements, contracts and leases maintained by the Section 272 affiliates. We received responses from FSI and 34 of the 78 major suppliers and lessors to which confirmation requests were sent, confirming they did not have recourse to the BOCs' assets.

4. We obtained the general ledgers for the Section 272 affiliates and documented the balances of accounts payable to the BOCs as of September 30, 2000. We noted no balances for advances from the BOCs in the general ledgers of the Section 272 affiliates. We noted from the general ledger that the balance of accounts payable to the BOCs at September 30, 2000 for BABS and BACI was ****proprietary**** and ****proprietary****, respectively. We noted no balance for accounts payable to the BOCs at September 30, 2000 for BAGNI.

Objective V & VI: Affiliate Shall Conduct All Transactions with the BOC at Arm's Length, and the BOC Shall Account for All Transactions with the Separate Affiliate in Accordance with FCC Rules

1. We documented the procedures used by the BOCs to identify, track, respond, and take corrective action to competitors' complaints. Management indicated that the regulatory liaison department is responsible for monitoring the complaint process. When a complaint arises, a complaint manager is assigned who, with the assistance of a representative from the line of business that is impacted by the complaint, is responsible for investigating the complaint. The complaint manager is responsible for compiling a formal response, including the corrective actions to be taken. A database is maintained by the regulatory liaison department to track the status of all complaints including the final resolutions thereto.

   We obtained from the BOCs a list of FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716, and any written complaints made to a state regulatory commission from competitors involving the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed from January 3, 2000 through September 30, 2000. This list categorizes the complaints as follows:
   - allegations of cross-subsidies (for Objective V and VI);
   - allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);
   - allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);
   - allegations of discriminatory availability of exchange access facilities (for Objective IX);
   - allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI); and
   - other

   Management indicated that there were no complaints filed applicable to Objective V/VI.

2. We obtained the BOCs' and the Section 272 affiliates' written procedures for transactions with affiliates in effect at September 30, 2000 and compared these procedures with the FCC Rules and Regulations indicated as "standards" in the *General Standards Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, As Amended*, and noted the Company's written procedures included the FCC Rules and Regulations indicated as standards above.

3. We inquired and documented how the BOCs and the Section 272 affiliates disseminate the FCC Rules and Regulations and raise awareness among employees for compliance with the affiliate transaction rules. We documented the type and frequency of training, literature distributed, the Company's policy and the supervision provided to employees responsible for affiliate transactions. Management indicated that all Section 272 affiliate employees are required to attend mandatory Section 272 compliance training conducted by the Affiliate Transactions Compliance Office. The Section 272 affiliate transaction policy training includes: an overview of the Telecommunications Act of 1996, identification of the Section 272 affiliates, the affiliate transaction rules, the consequences of non-compliance with the

rules, the structural, accounting and non-discriminatory compliance requirements, information sharing and joint marketing.

Employees are provided with written documentation on the Affiliate Transactions Policy, global e-mails are sent to disseminate information, target letters are sent to specific organizations and videos and summaries are given to employees. The Affiliate Transactions Policy is also located on the Corporate Wide Web.

The BOC's Code of Business Conduct states the guidelines that BOC employees are required to follow and includes a section on Affiliate Transactions that covers the proper allocation of costs between regulated and non-regulated affiliates, the prescribed pricing of transactions and the appropriate documentation and reporting of time and expense charges related to inter-company transactions.

There is an Affiliate Interest Compliance Office Hotline, and each business unit is assigned a specific Compliance Officer who is required to answer any questions employees may have on the subject. In addition, each business unit has an attorney who can be reached to answer questions relative to transactions with Section 272 affiliates.

We requested certain employees who are responsible for developing and recording affiliate transaction costs in the books of record of the carrier to complete a questionnaire surrounding their awareness of the FCC Rules and Regulations governing affiliate transactions. We interviewed these employees and documented that the individuals indicated they were aware of these rules and received training with respect to these rules.

4. We inquired of management and documented the following process that a Section 272 affiliate must follow to request any type of service from the BOCs, and the approval process within the BOCs to fulfill a request for service from a Section 272 affiliate. Management indicated the Section 272 affiliates must request service from the BOCs in the same manner as unaffiliated entities. A BOC account executive is the customer interface for all requests for service from both the Section 272 affiliates and unaffiliated entities for the services provided by the account executive's organization. There is an account executive for each particular line of business, or business unit. The account executive is responsible for designating a BOC lead negotiator. The lead negotiator is the overall project manager responsible for the negotiation and affiliate transaction documentation. The lead negotiator is responsible for assembling the negotiation team including the necessary subject matter experts and legal counsel. The lead negotiator is responsible for communicating with the Affiliate Interests Compliance Office.

   The BOC coordinates with the Affiliate Interest Compliance Office and legal counsel to determine whether the transaction is permitted under the affiliate transaction rules and regulations. If the transaction violates existing state or federal regulatory or statutory requirements, the negotiation process is terminated. The negotiating team must also determine whether transactions can be conducted in a non-discriminatory manner.

5. We obtained the written agreements for services and for interLATA and exchange access facilities between the BOCs and the Section 272 affiliates in effect from January 3, 2000 through September 30, 2000. We summarized these agreements and documented the names of parties, type of service, rates, terms, and conditions. We compared the services rendered by the BOCs to the Section 272 affiliates under these agreements with the list of services provided by the BOCs to the Section 272 affiliates in Objective I, Procedure 4 and noted no

differences between the list of services provided in Objective 1, Procedure 4 and the services listed in the agreements. We noted that all agreements except seven were still in effect as of September 30, 2000. Detailed information concerning these seven agreements has been provided in the table below:

Table No. 1

Ref. No.	Names of Parties		Type of Service	Price, Terms, & Conditions*
	Party Providing Service	Party Receiving Service		
1	Network Services, Inc. ("NSI") on behalf of New England Telephone and New York Telephone	BACI	Long Distance Sales Training	Expired on March 31, 2000
2	NSI on behalf of all BOCs	BACI and BABS	Program Development	Expired on August 3, 2000. This service was incorporated into the billing and collections agreements for BACI and BABS, effective January 3, 2000 and March 15, 2000, respectively.
3	BACI	NSI on behalf of all Bell Atlantic South BOCs[3] and Telesector Resource Group ("TRG") on behalf of all Bell Atlantic North BOCs[4]	Operator Services: - Directory Assistance Services Security Escort Services	
4	BABS	NSI on behalf of all South BOCs and TRG on behalf of all North BOCs	Operator Services: - Directory Assistance Services Security Escort Services	
5	BAGNI	NSI on behalf of all South BOCs and TRG on behalf of all North BOCs	Operator Services: - Directory Assistance Services Security Escort Services	

[3] For purposes of this report, the Bell Atlantic South BOCs include Bell Atlantic-PA, Bell Atlantic-NJ, Bell Atlantic-DE, Bell Atlantic-MD, Bell Atlantic-VA, Bell Atlantic-DC, Bell Atlantic-WV.

[4] For purposes of this report, the Bell Atlantic North BOCs include New York Telephone Company and New England Telephone and Telegraph Company.

Ref. No.	Names of Parties		Type of Service	Price, Terms, & Conditions*
	Party Providing Service	Party Receiving Service		
6	New England Telephone and Telegraph	BAGNI	Space Sublease	Expired as of September 30, 2000
7	New England Telephone and Telegraph	BAGNI	Space Lease	Expired as of September 30, 2000

* For information on price, terms, and conditions for the agreements, see the Section 272(b)(5) websites:

- www.callbell.com/regreqs2/index.cfm for BACI
- www.callbell.com/regreqs2/index.htm for BABS
- www.baglobal.com/regrequirements.html for BAGNI

Management indicated that the strike dates were August 5, 2000 through August 24, 2000 for the Bell Atlantic South BOCs, and August 5, 2000 through August 22, 2000 for the Bell Atlantic North BOCs.

We noted that three of the five agreements that were no longer in effect as of September 30, 2000 were terminated prematurely during the period from January 3, 2000 through September 30, 2000. The three agreements that were terminated prematurely were for strike related services which were no longer needed after the strike had ended. We noted two agreements for real estate services that expired as of September 30, 2000, for which BAGNI continued to receive the services and make payments to the BOCs. These two real estate services were being provided on a month-to-month basis subsequent to the expiration of the related agreements which management indicated is consistent with common practice for real estate leases. We inquired of management and documented that the BOCs' policy is to provision services to the Section 272 affiliates only with a written agreement.

6. Within a week after September 30, 2000, we viewed the Section 272(b)(5) websites:
   - www.callbell.com/regreqs2/index.cfm for BACI,
   - www.callbell.com/regreqs2/index.htm for BABS; and
   - www.baglobal.com/regrequirements.html for BAGNI

We also printed the web postings of the contract summaries as of September 30, 2000. We compared the rates, terms and conditions of services on the web postings to the written agreements provided in Objective V/VI, Procedure 5 and noted the following:

- 839 web postings in total (representing 135 written agreements and 51 amendments) of which 459 were posted in 2000 (representing 7 written agreements and 34 amendments);
- Rates, terms and conditions for 535 of the 839 web postings were agreed to the written agreements with no exceptions;
- 44 of the 839 web postings contained multiple errors;
  129 of the 839 web postings contained discrepancies as compared to the written agreements. A list of the 129 web postings is provided in Attachment I, Table No. 2. The 129 web postings represent 11 written agreements and 14 amendments. Management indicated that the discrepancies occurred as a result of administrative errors.
- written agreements related to 96 of the 839 web postings were prepared in the form of Access Service Requests, which did not contain sufficiently detailed information necessary to enable us to agree the specific rates, terms and conditions in the written

agreements to the web postings (representing 96 written agreements). A list of the 96 web postings related to Access Service Requests written agreements is provided in Attachment I, Table No. 3. Management indicated that the Access Service Requests were not sufficiently detailed to meet the Section 272 (b)(5) web postings requirements and the information was provided to the Section 272 affiliates for posting to the web by the BOCs' account executives. Management indicated that the terms and conditions are in accordance with the provisions of FCC and state public utility commission tariffs, and the same terms and conditions are offered by the BOCs to the Section 272 affiliates and IXCs. Management indicated that requests for access service were originally handled on an individual basis using an Access Service Request. Memorandums of Understanding have since been created to include all services not covered under the earlier Access Service Requests. Management indicated that Access Service Requests and Memorandums of Understanding are maintained for similar agreements between the BOCs and Section 272 affiliates in order to comply with the Section 272 (b)(5) requirement that transactions between the BOCs and Section 272 affiliates be reduced to writing and available for inspection;

- four web postings (representing two amendments) related to access services were not posted on the Section 272(b)(5) websites as of January 2, 2001, but were subsequently posted during February 2001. A list of the four web postings is provided in Attachment I, Table No. 4. For three of the four web postings, the original agreements were between Bell Atlantic-New York and the Section 272 affiliates. Management indicated there was an amendment which added an affiliate, which was not a Section 272 affiliate, to the agreements. Management indicated the amendments were originally posted to that affiliates' website and not the Section 272 (b) (5) website since the affiliate added was not a Section 272 affiliate. Management indicated that the fourth web posting between BABS and Bell Atlantic-Maryland was inadvertently excluded from the website.

We inquired of management and documented the procedures the Section 272 affiliates have in place for posting affiliate transactions on a timely basis. Management indicated that the Section 272 affiliates have the following procedures in place for posting transactions on the web on a timely basis:

- Section 272 affiliate lead negotiator prepares the web transactional page which describes the transaction.
- Section 272 affiliate contract administrator verifies the web transactional page was posted to coordinate distribution of posting material.
- the web transactional page is posted by the Section 272 affiliate.
- to ensure process compliance and timely posting, the web transaction pages are reviewed by the Section 272 affiliate contract administrator to ensure that no web transaction pages are missing. In instances where web transactional pages are missing, the Section 272 affiliate contract administrator notifies the lead negotiator, web posting employee, and the Affiliate Legal and Federal Regulatory team.

We compared the transaction date to the posting date for the 839 web postings referred to above and noted that 51 web postings (which represent seven amendments) of the 459 contract summaries posted in 2000 were not posted on the Section 272(b)(5) websites within the required 10 calendar days. Of the 51 web postings, 37 web postings were posted within five days after the required posting date. Nine web postings were posted within six to 10 days after the required posting date, and five web postings were posted more than 10 days after the required posting date. A list of the 51 web postings is provided in Attachment I, Table No. 5. Management indicated that the web postings were not posted within the required period as the result of an administrative error. 408 of the 459 web postings posted in 2000 were posted within the required 10 calendar days.

We inspected and noted that 68 web postings (which represent 22 written agreements and six amendments) of the 839 web postings did not contain some of the required disclosures necessary for posting. A list of the 68 web postings is provided in Attachment I, Table No. 6. Management indicated that the omissions of data occurred as a result of an administrative error.

We selected a random sample of 85 web postings to determine whether the same information was made available for public inspection at the principal place of business of the BOCs at three judgmentally selected BOCs' locations. We noted that four web postings and their related agreements and Officer Certification Statements were not made available for public inspection when we visited the principal place of business of one of the BOCs. Detailed information concerning these four web postings has been provided in the table below:

Table No. 7

Ref. No.	Parties		Agreement*
	Provided By	Provided To	
1	BACI	Bell Atlantic-Maine	Emergency Work Stoppage Agreement
2	BAGNI	Bell Atlantic-Massachusetts	Emergency Work Stoppage Agreement
3	BAGNI	Bell Atlantic-Vermont	Emergency Work Stoppage Agreement
4	BA-New York	BACI	Amendment No. 10 to Marketing and Sales Agreement

* For information on price, terms, and conditions for the agreements, see the Section 272(b)(5) websites:

- www.callbell.com/regreqs2/index.cfm for BACI
- www.callbell.com/regreqs2/index.htm for BABS
- www.baglobal.com/regrequirements.html for BAGNI

At two of the BOCs' locations, we noted that tariff pages for six agreements (three at each location) were not made available for public inspection. Detailed information concerning these six web postings has been provided in the table below:

Table No. 8

Ref. No.	Parties		Agreement*
	Provided By	Provided To	
1	Bell Atlantic-New England	BABS	Service Agreement (for data exchange and database access services)
2	Bell Atlantic-New England	BABS	Service Agreement (for data exchange and database access services), Amendment No. 1
3	Bell Atlantic-New England	BACI	Service Agreement (for data exchange and database access services), Amendment No. 1
4	Bell Atlantic-Pennsylvania	BABS	Service Agreement (for data exchange and database access services), Amendment No. 1

Ref. No.	Parties		Agreement*
	Provided By	Provided To	
5	Bell Atlantic-Pennsylvania	BACI	Service Agreement (for data exchange and database access services), Amendment No. 1
6	Bell Atlantic-Pennsylvania	BACI	Local Exchange – Centrex Services, Amendment No. 2

* For information on price, terms, and conditions for the agreements, see the Section 272(b)(5) websites:

- www.callbell.com/regreqs2/index.cfm for BACI
- www.callbell.com/regreqs2/index.htm for BABS
- www.baglobal.com/regrequirements.html for BAGNI

Management indicated that the tariff pages were inadvertently excluded from the agreements made available for public inspection. The Company made no claims of confidentiality for nondisclosure.

7. For nontariffed services and for services for which a prevailing market price ("PMP") has not been established, or which are not subject to agreements filed with a public service commission, we inquired of management and documented the BOCs' and the Section 272 affiliates' process for developing fully distributed cost ("FDC"). Management indicated that the entity providing the service is responsible for gathering most of the information required to develop the FDC calculation. Examples of the types of information that an entity providing the service should provide include a detailed description of the product or service being provided, the job function code or titles of the employees involved, the number of employees in each job function or title, the building location and floor space used by these employees, any computer systems utilized, vendor or outside contractor costs, or any special equipment or supplies purchased. This information is forwarded to the Bell Atlantic Service Costs Department (a department of NSI and TRG), which calculates FDC.

We inquired of management and documented and identified the type of costs included in FDC. Management indicated FDC includes direct labor, materials, overhead, and return on investment. For two services provided by the BOC to the Section 272 affiliates, we obtained and documented the actual development of FDC. These services included: (a) Business Service Center/Account Team Center (General Business) to BABS, and (b) Sales/Service (Consumer Sales) to BACI.

(a) The FDC for Business Service Center/Account Team Center (General Business) to BABS included direct labor, non-wage expenses and overhead, and return on investment for each cost component. Specific cost components include:
- Labor Costs
- Third Party Acquisitions - Order Processing
- Work Flow Manager Cost
- Incentive Program Costs
- Service Order Processing System Costs
- SalesStar System Costs

(b) The FDC for Sales/Service (Consumer Sales) to BACI included direct labor, non-wage expenses and overhead, and return on investment for each cost component. Specific cost components include:
- New Hires
- Management
- Systems

For the one service provided by the Section 272 affiliates to the BOC, we documented the actual development of FDC. This service was related to an employee strike.

The FDC for Work Stoppage Services included the following types of costs:

- Average Annual Salary
- Bonus Payout
- Benefit Loading
- ROI

8. For nontariffed services and for services for which a PMP has not been established, or which are not subject to agreements filed with a public service commission, we inquired of management and documented the process the BOCs and the Section 272 affiliates follow to make good faith estimates of fair market value ("FMV"). Management indicated that a good faith determination of the fair market value requires the use of methods that are routinely used by the general business community. Examples of general business methods for obtaining fair market valuations include independent valuations such as appraisals, the use of catalogs listing similar items, competitive bids, the replacement cost of an asset, and the net realizable value of an asset. Additionally, the Company has engaged an unaffiliated entity to perform fair market valuations.

   The entity providing the good, service or transferring the asset is responsible for obtaining a fair market value for all associated costs. The entity develops a detailed description of the goods, services or assets involved, and provides any additional information required by an independent firm to further assist in the valuation of the goods, services or assets being valued.

   For two services provided by the BOCs to the Section 272 affiliates, we obtained and documented the actual development of FMV. These services included: (a) utility service associated with a real estate lease, and (b) Wholesale National Directory Assistance to BAGNI.:

   (a) The FMV for the selected real estate utility service was developed by an unaffiliated entity and was based on the utility company's rate and actual monthly usage.

   (b) The FMV for Wholesale National Directory Assistance was developed by review of the responses to the related BAGNI request for proposal.

   For the one service provided by the Section 272 affiliates to the BOCs, we documented the actual development of FMV. This service was related to the strike. We noted that management developed the FMV by referencing actual wages and publicly available third party wages for similar job functions, and social security and Medicare taxes.

9. We obtained a listing and amounts of services rendered by month by the BOCs to the Section 272 affiliates from January 3, 2000 through September 30, 2000. We identified those services made available to the Section 272 affiliates and not made available to third parties. Management indicated that these services were for joint marketing and are consistent with "CC Docket 96-149, *In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, First Report and Order and Further Notice of Proposed Rulemaking*." We selected a random sample of 70 transactions and we requested unit charges of FDC and FMV, as appropriate, to determine if

these amounts were recorded in the books of the BOCs in accordance with the affiliate transactions standards. We were unable to obtain the FMV at the unit charge level for 49 of the 70 transactions. Accordingly, for these 49 transactions, we attempted to compare FDC and FMV for individual components of the unit charges and noted the following:

- For 15 of the 49 transactions, we were able to compare all individual components of FDC and FMV; and
- For 34 of the 49 transactions, we were able to compare some but not all of the components of FDC and FMV. Management indicated that the Company requested but was not able to obtain FMV from the third parties for services such as the development and maintenance of customer database records and the customer complaint center because the related services were unique to the Company. We obtained from management a letter from the unaffiliated entity that indicated a FMV could not be obtained for these services.

Detailed information concerning these 15 and 34 transactions has been provided in the tables below:

Table No. 9

Ref. No.	Transaction (Service)	Amount (FDC)	Date	Parties	Components Compared
1	Agents – Premises	**proprietary**	March	NYT*/ BABS	All
2	Agents – Premises	**proprietary**	April	NYT / BABS	All
3	Agents – Premises	**proprietary**	May	NYT / BABS	All
4	Agents – Premises	**proprietary**	July	NYT / BABS	All
5	Agents – Premises	**proprietary**	August	NYT / BABS	All
6	Agents – Premises	**proprietary**	September	NYT / BABS	All
7	Agents – Telemarketing	**proprietary**	May	NYT / BABS	All
8	Agents – Telemarketing	**proprietary**	September	NYT / BABS	All
9	Agents – Premises and Telemarketing	**proprietary**	March	NYT / BABS	All
10	Agents – Premises and Telemarketing	**proprietary**	May	NYT / BABS	All
11	Agents – Premises and Telemarketing	**proprietary**	June	NYT / BABS	All
12	Agents – Premises and Telemarketing	**proprietary**	September	NYT / BABS	All
13	Cost of Observation	**proprietary**	March	NYT / BABS	All
14	Cost of Observation	**proprietary**	June	NYT / BABS	All
15	Cost of Observation	**proprietary**	August	NYT / BABS	All

* New York Telephone Company

Table No. 10

Ref. No.	Transaction (Service)	Amount (FDC)	Date	Parties	Components Compared
1	Business Service Center / Account Team Center – NY	****proprietary****	March	NYT*/ BABS	Some
2	Business Service Center / Account Team Center – NY	****proprietary****	April	NYT / BABS	Some
3	Business Service Center / Account Team Center – NY	****proprietary****	June	NYT / BABS	Some
4	Business Service Center / Account Team Center – NY	****proprietary****	August	NYT / BABS	Some
5	Business Service Center / Account Team Center – NY	****proprietary****	September	NYT / BABS	Some
6	Business Service Center / Account Team Center / LaConnexion – ME	****proprietary****	March	NYT / BABS	Some
7	Business Service Center / Account Team Center / LaConnexion – ME	****proprietary****	May	NYT / BABS	Some
8	Business Service Center / Account Team Center / LaConnexion – ME	****proprietary****	June	NYT / BABS	Some
9	Telephone Account Manager	****proprietary****	March	NYT / BABS	Some
10	Telephone Account Manager	****proprietary****	April	NYT / BABS	Some
11	Telephone Account Manager	****proprietary****	May	NYT / BABS	Some
12	Telephone Account Manager	****proprietary****	September	NYT / BABS	Some
13	Direct Marketing Center	****proprietary****	March	NYT / BABS	Some
14	Direct Marketing Center	****proprietary****	May	NYT / BABS	Some
15	Direct Marketing Center	****proprietary****	June	NYT / BABS	Some
16	Direct Marketing Center	****proprietary****	September	NYT / BABS	Some
17	Out of Region	****proprietary****	March	NYT / BABS	Some
18	Out of Region	****proprietary****	April	NYT / BABS	Some
19	Out of Region	****proprietary****	June	NYT / BABS	Some

Ref. No.	Transaction (Service)	Amount (FDC)	Date	Parties	Components Compared
20	Out of Region	**proprietary**	August	NYT / BABS	Some
21	Internet Telemarketing	**proprietary**	April	NYT / BABS	Some
22	Internet Telemarketing	**proprietary**	May	NYT / BABS	Some
23	Internet Telemarketing	**proprietary**	June	NYT / BABS	Some
24	Internet Telemarketing	**proprietary**	September	NYT / BABS	Some
25	Cost Allocation Manual	**proprietary**	June	NYT / BABS	Some
26	Cost Allocation Manual	**proprietary**	August	NYT / BABS	Some
27	Ordering Processing Services for Agents	**proprietary**	July	NYT / BACI	Some
28	Ordering Processing Services for Agents	**proprietary**	August	NYT / BACI	Some
29	Ordering Processing Services for Multi-Dwelling Unit Agents	**proprietary**	August	NYT / BACI	Some
30	Sales/Service	**proprietary**	March	NYT / BACI	Some
31	Sales/Service	**proprietary**	April	NYT / BACI	Some
32	Sales/Service	**proprietary**	May	NYT / BACI	Some
33	Sales/Service	**proprietary**	June	NYT / BACI	Some
34	Sales/Service	**proprietary**	August	NYT / BACI	Some
* New York Telephone Company					

We noted that for nine of the 70 transactions (which represents three services), the Section 272 affiliate was charged an amount other than FDC or FMV as the result of an administrative error. Detailed information concerning these nine transactions has been provided in the table below:

Table No. 11

Ref. No.	Transaction (service)	Amount Charged	Date	Parties
1	Targeted Inbound Telemarketing	**proprietary**	July	NYT / BACI
2	Untargeted Inbound Telemarketing	**proprietary**	March	NYT / BACI
3	Untargeted Inbound Telemarketing	**proprietary**	July	NYT / BACI

Ref. No.	Transaction (service)	Amount Charged	Date	Parties
4	Untargeted Inbound Telemarketing	**proprietary**	August	NYT / BACI
5	Targeted Outbound Telemarketing	**proprietary**	March	NYT / BACI
6	Targeted Outbound Telemarketing	**proprietary**	May	NYT / BACI
7	Targeted Outbound Telemarketing	**proprietary**	June	NYT / BACI
8	Targeted Outbound Telemarketing	**proprietary**	July	NYT / BACI
9	Targeted Outbound Telemarketing	**proprietary**	August	NYT / BACI
* The amounts originally provided for these services were estimates. Management indicated that the amounts were billed in October 2000.				

For all 70 transactions, we traced the invoiced amount to the books of the BOC. We documented the amounts the Section 272 affiliates recorded for the services in their books of record. We also documented the amount the Section 272 affiliates paid the BOCs for the services. We compared the invoiced amount recorded in the BOC's books of record to the amount recorded in the Section 272 affiliate's books of record and noted no differences.

10. We obtained a listing and amounts charged for services by month to the BOCs by the Section 272 affiliates from January 3, 2000 through September 30, 2000. For 17 transactions (which represent all transactions for the service offered to the BOCs by the Section 272 affiliates), we compared unit charges to FDC or FMV, as appropriate, and determined that the costs for these transactions were recorded in the books of the BOCs at the lower of FDC or FMV in accordance with the affiliate transaction standards.

Management indicated that BACI, BABS and BAGNI billed Bell Atlantic-PA, Bell Atlantic-DC, Bell Atlantic-MD, Bell Atlantic-VA, Bell Atlantic-DE, Bell Atlantic-NJ and Bell Atlantic-NY a combined **proprietary** for Directory Assistance Services provided during the strike. The strike dates were August 5, 2000 through August 24, 2000 for the Bell Atlantic South BOCs, and August 5, 2000 through August 22, 2000 for the Bell Atlantic North BOCs. Management met with members of the FCC's Common Carrier Bureau to discuss their desire to use employees from the Section 272 affiliates to provide services to the BOCs during the work stoppage. Management was advised by the Common Carrier Bureau that Verizon could use employees from the Section 272 affiliates to provide services to the BOCs during the work stoppage provided the transaction was provided in accordance with all rules, regulations and statutes. Since there was no prevailing price, in accordance with the applicable rule, the transaction was recorded in the BOCs books at the lower of FDC or FMV.

We documented the amount the BOCs recorded for these transactions in their books of record. For two of the 17 transactions, the amount recorded by the Section 272 affiliate could not be agreed to the amount recorded by the BOCs due to a reclass in the amounts billed of **proprietary**. However, in total, the amounts recorded for these two transactions by the BOCs and Section 272 affiliate were the same. For one of the 17 transactions, the amount recorded by the Section 272 affiliate could not be agreed to the amount recorded by the BOC due to disputes in the amounts billed of ****proprietary****. We also documented the amount the BOCs paid for these transactions to Section 272 affiliates. For one of the 17 transactions, we were unable to trace the invoiced amount to the books of record of the BOC as this transaction was not yet fully paid by the BOC. The transaction was for services provided by BACI for Bell Atlantic-Maryland in August 2000. The total amount billed was ****proprietary****, of which ****proprietary**** was not paid.

11. We inquired and documented how and who maintains the Section 272 affiliates' employee benefit plans (such as life insurance, health insurance, retirement plans). We inquired of management and management indicated the costs for administering these plans are allocated to the Section 272 affiliates and these benefits are not funded by the BOCs. The employee benefit plans are administered by the Bell Atlantic Human Resources - Benefits Planning Group, a department of NSI and TRG. The costs for these plans are allocated to the participating affiliates based on several factors, including relative number of employees enrolled in the plans at each entity, relative payroll of the entities, and historical cost.

12. We obtained a listing and amounts charged for services by month by each of the two central services organizations to the Section 272 affiliates from January 3, 2000 through September 30, 2000 and documented the methodology used to identify and cost these services. The two central service organizations are TRG and NSI. For a random sample of 70 transactions rendered by TRG and a random sample of 80 transactions rendered by NSI, we obtained the related invoices and intercompany payment reports, which indicated that the Section 272 affiliates were billed and paid for these transactions.

    The Company utilizes a cost allocation system that is based on direct allocation for those costs which can be directly attributed to the entity receiving the services. Where costs cannot be directly assigned, the allocation is based on an indirect cost causative principle. The services rendered by TRG and NSI to the Section 272 affiliates are priced using a FDC methodology.

13. We obtained the balance sheets and detailed listings of fixed assets for the Section 272 affiliates at September 30, 2000. We performed the procedures indicated in Objective I, Procedure 7. We inquired of management and management indicated there were no fixed assets purchased or transferred from the BOCs to the Section 272 affiliates as of September 30, 2000. Management indicated fixed assets were transferred to the Section 272 affiliates from other non-regulated affiliates. We selected a random sample of 86 fixed assets transferred from other non-regulated affiliates. We identified and documented whether they were originally transferred from the BOCs to other affiliates by inspecting third party and other non-regulated affiliate invoices. We obtained and inspected third party invoice support for 72 of 86 selections and noted no instances where those items purchased or transferred from another affiliate as of September 30, 2000 were originally transferred from the BOCs. For 14 of the 86 selections, we were unable to obtain third party and other non-regulated affiliate invoices as management was unable to locate such invoices. Therefore, we were unable to determine whether these 14 items were originally transferred from the BOCs. Detailed information concerning these 14 invoices has been provided in the table one the following page.